



## **Tax Increment Financing Policy & Application**

**Amended: February 2014**

Amended: May 2006

Amended: March 2000

Adopted: August 1991

City of Elk River  
Economic Development Division  
13065 Orono Parkway  
Elk River, MN 55330  
763.635.1040

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## **I. POLICY PURPOSE**

*For the purposes of this document, the term “City” shall include the Elk River City Council, Economic Development Authority, and Housing and Redevelopment Authority.*

The purpose of this policy is to establish the City of Elk River’s position relating to the use of Tax Increment Financing (TIF) for private development above and beyond the requirements and limitations set forth by State Law. This policy shall be used as a guide in the processing and review of applications requesting tax increment assistance. The fundamental purpose of tax increment financing in Elk River is to encourage desirable development or redevelopment that would not otherwise occur *but for* the assistance provided through TIF.

The City of Elk River is granted the power to utilize TIF by the Minnesota Tax Increment Financing Act, as amended. It is the intent of the City to provide the minimum amount of TIF, as well as other incentives, at the shortest term required for the project to proceed. The City reserves the right to approve or reject projects on a case by case basis, taking into consideration established policies, project criteria, and demand on city services in relation to the potential benefits from the project. Meeting policy criteria does not guarantee the award of TIF to the project. Approval or denial of one project is not intended to set precedent for approval or denial of another project.

## **II. OBJECTIVES OF TAX INCREMENT FINANCING**

As a matter of adopted policy, the City will consider using TIF to assist private development projects to achieve one or more of the following objectives:

- To retain local jobs and/or increase the number and diversity of jobs that offer stable employment and/or attractive wages and benefits as defined in the City’s Business Subsidy Policy.
- To encourage additional unsubsidized private development in the area, either directly or indirectly through “spin off” development.
- To facilitate the development process and to achieve development on sites which would not be developed without TIF assistance.
- To remove blight and/or encourage redevelopment of commercial and industrial areas in the city that result in high quality redevelopment and private reinvestment.
- To offset increased costs of redevelopment (i.e. contaminated site clean up) over and above the costs normally incurred in development.
- To create opportunities for affordable housing.
- To contribute to the implementation of other public policies, as adopted by the city from time to time, such as the promotion of quality urban or architectural

design, energy conservation, and decreasing capital and/or operating costs of local government.

- To enhance and diversify the City of Elk River's economic base.
- To significantly increase the City of Elk River's tax base.

### **III. POLICIES FOR THE USE OF TIF**

- a. When possible, TIF shall be used to finance public improvements associated with the project. The priority for the use of TIF funds is:
  1. Public improvements, legal, administrative, and engineering costs.
  2. Site preparation, site improvement, land purchase, and demolition.
  3. Capitalized interest, bonding costs.
- b. It is the City's policy to establish the following types of TIF districts:
  1. Economic Development Districts
    - It is desired that the project result in a minimum creation of one full time job per \$25,000 of TIF, or
    - Result in a significant increase in the tax base.
  2. Redevelopment Districts
    - The market value of a redeveloped site shall increase by a minimum of 50% of the current market value.
  3. Housing Districts
    - May be considered on a case-by-case basis.

Other types of TIF districts, along with specific criteria, may be considered on a case-by-case basis.

- c. TIF assistance will be provided to the developer upon receipt of the increment by the City, otherwise referred to as the *pay-as-you-go* method. Requests for up front financing will be considered on a case-by-case basis.
- d. A maximum of ten percent (10%) of any tax increment received from the district may be retained by the City to reimburse administrative costs.
- e. Any developer receiving TIF assistance shall provide a minimum of ten percent (10%) owner cash equity investment in the project.
- f. TIF will not be used in circumstances where land and/or property price is in excess of fair market value.
- g. Developer shall be able to demonstrate a market demand for a proposed project. TIF shall not be used to support purely speculative projects.
- h. TIF will not be utilized in cases where it would create an unfair and significant competitive financial advantage over other projects in the area.

- i. TIF shall not be used for projects that would place extraordinary demands on city services or for projects that would generate significant environmental impacts.
- j. The developer must provide adequate financial guarantees to ensure completion of the project, including, but not limited to: minimum assessment agreements, letters of credit, personal guaranties, etc.
- k. The developer shall adequately demonstrate, to the City's sole satisfaction, an ability to complete the proposed project based on past development experience, general reputation, and credit history, among other factors, including the size and scope of the proposed project.
- l. For the purposes of underwriting the proposal, the developer shall provide any requested market, financial, environmental, or other data requested by the City or its consultants.
- m. All TIF proposals shall optimize the private development potential of a site.

#### IV. PROJECT QUALIFICATIONS

All TIF projects considered by the City of Elk River must meet *each* of the following requirements:

- a. To be eligible for TIF, a project shall result in:
  - i. The new construction of a minimum of 25,000 square feet;
  - ii. A minimum increase of \$37,500 per year in property taxes, excluding the state portion; and
  - iii. Have a market value of at least \$1,250,000 upon completion.
- b. The project shall meet at least one of the objectives set forth in Section II and satisfy all the provisions set forth in Section III of this document.
- c. The developer shall demonstrate that the project is not financially feasible *but-for* the use of TIF.
- d. The project shall comply with all provisions set forth in the Tax Increment Financing Act, Minnesota Statutes 469.124 to 469.134, inclusive, as amended, and Statutes 469.174 to 469.1794, inclusive, as amended.
- e. The project must be consistent with the City's Comprehensive Plan, Land Use Plan, and Zoning Ordinances.
- f. The project shall serve at least two of the following public purposes:
  - Creation of jobs with livable wages and benefits.
  - Significantly increase the City's tax base.
  - Enhancement or diversification of the city's economic base.
  - Industrial development that will spur additional private investment in

the area.

- Fulfillment of defined city objectives such as those identified in the City's Comprehensive Plan and the City's Economic Development Strategic Plan, among others.
- Removal of blight or the rehabilitation of a high profile or priority site.

## **V. SUBSIDY AGREEMENT & REPORTING REQUIRMENTS**

All developers/businesses receiving Tax Increment assistance from the City of Elk River shall be subject to the provisions and requirements set forth by the City's Business Subsidy Policy as amended and Minnesota Statutes Sections 116J.993 to 116J.995 (the "Minnesota Business Subsidy Law").

## **VI. APPLICATION PROCESS FOR TIF**

1. Applicant submits the completed application along with a \$10,000 application deposit, to be refunded for any portions not utilized if the tax increment project does not proceed. The application deposit will be used toward the cost of services provided in the evaluation of financial feasibility, establishment or modification of the TIF district, and preparation of legal documents and agreements. An additional deposit of \$10,000 will be required for projects that require meeting statutory eminent domain and/or redevelopment substandard tests. Projects that demand professional services in excess of the initial deposit shall be required to reimburse the City for the additional expenses.
2. City staff reviews the application and completes the Commercial-Industrial and/or Housing Worksheets. The Application and Commercial-Industrial and/or Housing Worksheets are primarily designed to score the desirability of the proposed project. Industrial, Redevelopment and Housing projects will be evaluated on a case-by-case basis and as the projects meet the city's desired objectives.
3. Results of the Commercial-Industrial and/or Housing Worksheets are submitted to the appropriate governing authorities (EDA or HRA) for recommendation to the City Council of approval or denial of the request.
4. If preliminary approval is granted, the Tax Increment Financing Plan, along with all necessary notices, resolutions are prepared by City staff and/or consultants.
5. Notices are published and sent to the county and school board.
6. Public hearing(s) on the proposed request are held.
7. The City Council grants final approval or denial of the request.

## VII. APPLICATION FOR TAX INCREMENT FINANCING

### A. APPLICANT INFORMATION

Name of Corporation/Partnership\_\_\_\_\_

Address \_\_\_\_\_

Primary Contact \_\_\_\_\_

Address \_\_\_\_\_

Phone \_\_\_\_\_ Fax \_\_\_\_\_ Email\_\_\_\_\_

Brief description of the corporation/partnership's business, including history, principal product or service:

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Brief description of the proposed project:

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Attorney Name \_\_\_\_\_

Address\_\_\_\_\_

Phone\_\_\_\_\_ Fax\_\_\_\_\_ Email\_\_\_\_\_

Accountant Name\_\_\_\_\_

Address\_\_\_\_\_

Phone\_\_\_\_\_ Fax\_\_\_\_\_ Email\_\_\_\_\_

Contractor Name \_\_\_\_\_

Address\_\_\_\_\_

Phone\_\_\_\_\_ Fax\_\_\_\_\_ Email\_\_\_\_\_

Engineer Name \_\_\_\_\_

Address\_\_\_\_\_

Phone\_\_\_\_\_ Fax\_\_\_\_\_ Email\_\_\_\_\_

Architect Name \_\_\_\_\_

Address\_\_\_\_\_

Phone\_\_\_\_\_ Fax\_\_\_\_\_ Email\_\_\_\_\_

## B. PROJECT INFORMATION

1. The project will be:  
☐ Industrial Greenfield: ☐ New Construction ☐ Expansion  
☐ Commercial Redevelopment: ☐ New Construction ☐ Rehabilitation  
☐ Industrial Redevelopment: ☐ New Construction ☐ Rehabilitation  
☐ Other \_\_\_\_\_
2. The project will be: ☐ Owner Occupied ☐ Leased Space
3. Project Address \_\_\_\_\_  
Legal Description & Parcel Identification Number(s) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
4. Site Plan and Preliminary Construction Plans Attached: ☐ Yes ☐ No
5. Amount of Tax Increment Requested for:  
Land Purchase \$ \_\_\_\_\_  
Public Improvement \$ \_\_\_\_\_  
Site Improvement \$ \_\_\_\_\_
6. Current Real Estate Taxes on Project Site: \$ \_\_\_\_\_  
Estimated Real Estate Taxes upon Completion: Phase I \$ \_\_\_\_\_  
Phase II \$ \_\_\_\_\_
7. Construction Start Date: \_\_\_\_\_  
Construction Completion Date: \_\_\_\_\_  
If Phased Project: \_\_\_\_\_ Year \_\_\_\_\_ % Completed  
\_\_\_\_\_ Year \_\_\_\_\_ % Completed

## C. PUBLIC PURPOSE

It is the policy of the City of Elk River that the use of Tax Increment Financing should result in a benefit to the public. Please indicate how this project will serve a public purpose.

- ☐ Job Creation/Retention: Number of existing jobs \_\_\_\_\_  
Number of jobs created by project \_\_\_\_\_  
Average hourly wage of jobs created/retained \_\_\_\_\_
- ☐ New industrial development, which will result in additional private investment in the area.
- ☐ Enhancement or diversification of the city's economic base.
- ☐ The project contributes to the fulfillment of the City's Economic Development Strategic Plan.
- ☐ Removal of blight or the rehabilitation of a high profile or priority site.
- ☐ Significantly increase the City's tax base.
- ☐ Other: \_\_\_\_\_



## D. SOURCES & USES

<u>SOURCES</u>	<u>NAME</u>	<u>AMOUNT</u>
Bank Loan	_____	\$ _____
Other Private Funds	_____	\$ _____
Owner Cash Equity	_____	\$ _____
Fed Grant/Loan	_____	\$ _____
State Grant/Loan	_____	\$ _____
EDA Micro Loan	_____	\$ _____
Tax Increment	_____	\$ _____
ID Bonds	_____	\$ _____
<b>TOTAL</b>		\$ _____

<u>USES</u>	<u>AMOUNT</u>
Land Acquisition	\$ _____
Site Development	\$ _____
Construction	\$ _____
Machinery & Equipment	\$ _____
Architectural & Engineering Fees	\$ _____
Legal Fees	\$ _____
Interest During Construction	\$ _____
Debt Service Reserve	\$ _____
Contingencies	\$ _____
<b>TOTAL</b>	\$ _____

## E. ADDITIONAL DOCUMENTATION AND CHECKLIST

Applicants will also be required to provide the following documentation.

- \_\_\_\_\_A) Written business plan, including a description of the business, ownership/management, date established, products and services, and future plans
- \_\_\_\_\_B) Financial Statements for Past Two Years
  - \_\_\_\_\_ Profit & Loss Statement
  - \_\_\_\_\_ Balance Sheet
- \_\_\_\_\_C) Current Financial Statements
  - \_\_\_\_\_ Profit & Loss Statement to Date
  - \_\_\_\_\_ Balance Sheet to Date
- \_\_\_\_\_D) Two Year Financial Projections
- \_\_\_\_\_E) Personal Financial Statements of all Major Shareholders
  - \_\_\_\_\_ Profit & Loss
  - \_\_\_\_\_ Current Tax Return
- \_\_\_\_\_F) Letter of Commitment from Applicant Pledging to Complete During the Proposed Project Duration
- \_\_\_\_\_G) Letter of Commitment from the Other Sources of Financing, Stating Terms and Conditions of their Participation in Project
- H) Application deposit of \$10,000, with any unused portion to be refunded if project does not proceed.
- \_\_\_\_\_I) Construction Plans and Itemized Project Construction Statement
- \_\_\_\_\_J) Attach the following documentation as Exhibits
  - \_\_\_\_\_ Exhibit A – Corporation/Partnership Description
  - \_\_\_\_\_ Exhibit B – Description of Project
  - \_\_\_\_\_ Exhibit C – List of Shareholders/Partners
  - \_\_\_\_\_ Exhibit D – *But-For* Analysis
  - \_\_\_\_\_ Exhibit E – List of Prospective Lessees
  - \_\_\_\_\_ Exhibit F – Legal Description and PID Number(s)

Note: All Major shareholders will be required to sign personal guarantees if up front financing of the project is required.

The undersigned certifies that all information provided in this application is true and correct to the best of the undersigned's knowledge. The undersigned authorizes the City of Elk River to check credit references and verify financial and other information. The undersigned also agrees to provide any additional information as may be requested by the City after the filing of this application.

Applicant Name \_\_\_\_\_ Date \_\_\_\_\_

## VIII. SAMPLE BUT-FOR ANALYSIS

	WITH NO TAX INCREMENT			WITH TAX INCREMENT		
	SOURCES AND USES			SOURCES AND USES		
	SOURCES			SOURCES		
Mortgage			9,600,000			8,667,000
Equity			2,400,000			2,400,00
Tax Increment Financing			0			933,000
<b>TOTAL SOURCES</b>			12,000,000			12,000,000
	USES			USES		
Land			1,500,000			1,500,000
Site Work			300,000			300,000
Soil Correction			468,000			468,000
Demolition			100,000			100,000
Relocation			65,000			65,000
Subtotal Land Costs			2,433,000			2,433,000
Construction			6,750,000			6,750,000
Finish Manufacturing			250,000			250,000
Subtotal Construction Costs			7,000,000			7,000,000
Soft Costs			350,000			350,000
Taxes			35,000			35,000
Finance Fees			850,000			850,000
Project Manager			542,000			542,000
Developer Fee			540,000			540,000
Contingency			250,000			250,000
Subtotal Soft Costs			2,567,000			2,567,000
<b>TOTAL USES</b>			12,000,000			12,000,000
	Income Statement			Income Statement		
	Sq. Ft.	Per Sq. Ft.		Sq. Ft.	Per Sq. Ft.	
Rent-Space 1	100,000	\$8.00	800,000	100,000	\$8.00	800,000
Rent-Space 2	25,000	\$8.50	212,500	25,000	\$8.50	212,500
Rent-Space 3	25,000	\$9.00	225,000	25,000	\$9.00	225,000
Other	0	\$0.00	0	0	\$0.00	0
			1,237,500			1,237,500
Mortgage		20 Term	1,051,646		20 Term	949,439
		9.00% Interest			9.00% Interest	
		9,600,000 Principal			8,667,000 Principal	
Net Income			185,854			288,061
Total Return on Equity			7.74%			12.00%

# IX. TAX INCREMENT FINANCING APPLICATION REVIEW WORKSHEET – COMMERCIAL/INDUSTRIAL PROJECTS

## TO BE COMPLETED BY CITY STAFF

1. The project meets the criteria set forth in Section IV of the City's Tax Increment Financing policy.

- \_\_\_\_\_ a) Meets minimum thresholds for size, value, and tax revenue.
- \_\_\_\_\_ b) Meets at least one of the objectives in Section II and satisfies all of the provisions set forth in Section III.
- \_\_\_\_\_ c) Demonstrates need for TIF with the *but-for* analysis.
- \_\_\_\_\_ d) Consistent with all city plans and ordinances.
- \_\_\_\_\_ e) Serves at least two public purposes as defined in Section IV (f).

<b>2. Ratio of Private to All Public Investment in Project:</b>	<b>Points:</b>	
\$_____ Private investment	5:1	5
\$_____ Public Investment	4:1	4
_____ <b>Ratio Private: Public Financing</b>	3:1	3
	2:1	2
	Less than 2:1	1

<b>3. Job Creation in the City of Elk River:</b>	<b>Points:</b>	
_____ Number of new jobs as a result of the project.	40+	5
_____ Number of existing/retained jobs divided by 2.	30+	4
_____ <b>Total</b>	20+	3
	10+	2
	Less than 10	1

<b>4. Ratio of Public Investment to Job Creation:</b>	<b>Points:</b>	
\$_____ Public Investment	\$15,000 or less	5
_____ Number of <i>new</i> jobs created/retained	\$20,000 or less	4
\$_____ <b>Public Investment per <i>new</i> job</b>	\$22,000 or less	3
	\$25,000 or less	2
	Over \$25,000	1

<b>5. Wage Level of new jobs created/retained:</b>	<b>Points:</b>	
Minimum hourly wage	Over \$21 / hour	5
of jobs created/retained: _____	\$18-21 / hour	4
	\$14-17 / hour	3
	\$10-13 / hour	2
	Under \$10 / hour	1

<b>6. Project size:</b>	<b>Points:</b>	
The project will result in the construction	80,000+	5
of square feet _____	65,000+	4
	50,000+	3
	35,000+	2

**7. Market Value/Tax Base Generation:**

The project will result in a per square foot estimated market value (land and building) of \_\_\_\_\_

	<b>Points:</b> _____
<u>Industrial</u>	<u>Commercial</u>
\$80/sf+	\$110/sf+ 5
\$70/sf+	\$100/sf+ 4
\$60/sf+	\$90/sf+ 3
\$50/sf+	\$80/sf+ 2
\$40/sf+	\$70/sf+ 1

**8. Type of Project:**

_____ 100% Owner Occupied	<b>Points:</b> _____ 5
_____ Mix Owner Occupied & Investment	4
_____ Investment Property	3

**9. Use:**

_____ Manufacturing	<b>Points:</b> _____ 5
_____ Research & Development	4
_____ Commercial Redevelopment	3
_____ Warehouse/Distribution	2
_____ Housing	1

**10. Likelihood that the project will result in unsubsidized, spin-off development.**

	<b>Points:</b> _____
_____ High	5
_____ Moderate	3
_____ Low	1

**Sub - Total Points:** \_\_\_\_\_ of a possible 45 points.

**11. Bonus Points****Bonus Points:** \_\_\_\_\_

- \_\_\_\_\_ The project will be 100% *Pay-as-you-go* TIF. 3 points
- \_\_\_\_\_ The project contributes to the goals of *Energy City*. 2 points
- Product promotes sensible use of energy, OR
  - Project utilizes significant energy efficient design &/or materials in construction.

**Total Points:** \_\_\_\_\_

Overall project analysis:	High	45-38 points
	Moderate	37-29 points
	Low	28-20 points
	Not Eligible	19-0 points

# X. TAX INCREMENT FINANCING APPLICATION REVIEW WORKSHEET- HOUSING PROJECTS

## TO BE COMPLETED BY CITY STAFF

1. The project meets the criteria set forth in Section IV of the City's Tax Increment Financing policy.

- \_\_\_\_\_ a) Meets minimum thresholds for size, value, and tax revenue.
- \_\_\_\_\_ b) Meets at least one of the objectives in Section II and satisfies all of the provisions set forth in Section III.
- \_\_\_\_\_ c) Demonstrates need for TIF with the *but-for* analysis.
- \_\_\_\_\_ d) Consistent with all city plans and ordinances.
- \_\_\_\_\_ e) Serves at least two public purposes as defined in Section IV (f).

2. Ratio of Private to All Public Investment in Project:

Points: \_\_\_\_\_

\$ _____ Private investment	5:1	5
\$ _____ Public Investment	4:1	4
_____ Ratio Private: Public Financing	3:1	3
	2:1	2
	Less than 2:1	1

3. Job Creation in the City of Elk River:

Points: \_\_\_\_\_

_____ Number of new jobs as a result of the project.	20+	5
_____ Number of existing/retained jobs divided by 2.	15+	4
_____ Total	10+	3
	5+	2
	Less than 5	1

4. Wage Level of new jobs created/retained:

Points: \_\_\_\_\_

Minimum hourly wage	Over \$25/hour	5
of jobs created/retained: _____	\$21-25/hour	4
	\$17-20/hour	3
	\$14-16/hour	2
	Under \$14/hour	1

5. Market Value/Tax Base Generation:

Points: \_\_\_\_\_

Project will result in an estimated		
market value per unit	\$135,000/Unit	5
(land and building) of _____	\$125,000/Unit	4
	\$115,000/Unit	3
	\$105,000/Unit	2
	\$ 95,000/Unit	1

6. Project provides housing that is restricted to persons 55 years and older:

Points: \_\_\_\_\_

5

7. Project proposes rehabilitation of existing housing, housing stock, and maximizes utilization of existing infrastructure:

Points: \_\_\_\_\_  
4

8. Project proposes a location near existing jobs, transportation, recreation, retail services, social services, and schools:

Points: \_\_\_\_\_  
2

9. Type of Housing Project:

Points: \_\_\_\_\_

\_\_\_\_\_ 100% Owner Occupied

2

\_\_\_\_\_ Investment Property

1

10. Likelihood that the project will result in unsubsidized, spin-off development.

Points: \_\_\_\_\_

\_\_\_\_\_ High 5

\_\_\_\_\_ Moderate 3

\_\_\_\_\_ Low 1

Sub - Total Points: \_\_\_\_\_ of a possible 38 points.

11. Bonus Points

Bonus Points: \_\_\_\_\_

\_\_\_\_\_ The project will be 100% *Pay-as-you-go* TIF.

3 points

\_\_\_\_\_ The project contributes to the goals of *Energy City*.

2 points

- Product promotes sensible use of energy, OR
- Project utilizes significant energy efficient design &/or materials in construction.

Total Points: \_\_\_\_\_

Overall project analysis:

High 38-30 points

Moderate 29-22 points

Low 21-13 points

Not Eligible 12-0 points